

SHORT VIDEO: ENERGY EFFICIENT MORTGAGES

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Hello and welcome to this brief video on Energy Efficient Mortgages. My name is Sid Ohlhausen from the VA Regional Loan Center in Houston.

This video is intended for veterans who want to learn more about VA's special program for including the cost of Energy Efficient improvements in their purchase or refinancing mortgage loan. When we're done with this video, you should understand the following:

PP 1: OBJECTIVES

First, the purpose of the Energy Efficient Mortgage program. Second, just what is considered an Energy Efficient Improvement. Third, what documentation VA requires, next, how to handle improvements that are to be postponed until after closing, and finally, special considerations for streamline or Interest Rate Reduction Refinance loans.

First, what is the purpose of VA's Energy Efficient Mortgage program? The basic idea is to make it as quick and simple as possible to add improvements that will reduce the consumption of energy and therefore, your overall housing cost during the life of your VA loan. Under the program, you can increase your loan amount by up to \$6,000 with minimal documentation and without a separate appraisal. This program can be used with a new or an existing home. And for a purchase or refinance mortgage.

What is an Energy Efficient Improvement? Here is a list of some examples.

PP 2: EXAMPLES

Solar heating systems, including solar systems for heating water for domestic use, solar cooling systems, certain furnace efficiency modifications, clock thermostats, new or additional insulation for the ceiling, attic, wall and floor, water heater insulation, storm or thermal windows and doors, heat pumps, and vapor barriers.

This is not an all inclusive list. You may wish to discuss with your lender any other improvement you may think would qualify.

Now we mentioned that you can add the cost of these improvements without a separate value determination. That means that if the property you are purchasing or refinancing has already been appraised, you can borrow up to an additional \$6000 for Energy Efficient Improvements without needing a reappraisal. If you are just now requesting an appraisal, you won't need any documentation of your proposed Energy Efficient Improvements until you actually close your loan.

Just what documentation is required? It depends on how much will be added to the loan amount.

PP 3: DOCUMENTATION

If the increase in the loan amount is to be from \$0 to \$3,000, the only required documentation is of the cost of those improvements, such as receipts. You cannot include the cost of your own labor. If the loan amount is to be increased by an amount from \$3,001 to \$6,000, in addition to documenting the cost, your lender will have to determine that the increase in the monthly mortgage payment will be offset by energy savings from the improvements.

How does the lender make this determination? VA allows great flexibility to lenders in this area. They may contact local utility companies or qualified private contractors for necessary information.

Suppose you won't be able to complete the Energy Efficient Improvements until after you close your loan? This is OK with VA, but you will need to coordinate with your lender.

PP 4: POSTPONED ENERGY IMPROVEMENTS

They will probably want to set up an escrow account for the improvements.

We do not require a formal escrow agreement. The lender will need only the actual amount for the improvements, not a multiple of one and one-half times as is usually required for escrow agreements. And the lender can obtain their guaranty from VA without documentation of completion of the improvements. You will need to provide that to them, usually within 6 months.

Now, let's discuss some specifics on refinancing loans. The most popular refinancing program for VA loans is called the "streamline" refi loan. It is for veterans who have an existing VA loan obtained using their VA entitlement and who want to refinance that loan at a lower interest rate.

If you are thinking of this type of loan, you can add Energy Efficient Improvements up to \$6,000, and that is in addition to the closing costs associated with the refinance loan. No appraisal is required by VA for a "streamline" refi loan, and only the minimum documentation we discussed earlier is required. In addition to reducing your interest cost, you can reduce your energy costs as well by adding energy efficient improvements.

If you are considering a regular refinancing loan, sometimes called a "cash-out" refi loan, you can also use the energy efficient improvement program. The same procedures we have already discussed apply with this program.

One last thing we may mention. If your proposed energy efficient improvements exceed \$6,000, you can still add them to your loan amount. However, a separate appraisal or value determination is required. You can discuss this with your lender.

Now, let's review what we have covered.

PP 1 (Repeat)

First, we discussed the purpose of the Energy Efficient Mortgage program. Next, we covered several examples of what is considered an Energy Efficient Improvement. Third, we went over what documentation VA requires, next, we explained how to handle improvements that are to be postponed until after closing, and finally, we mentioned special considerations for streamline or Interest Rate Reduction Refinance loans.

We hope you have found this program helpful and that you will now understand how to include energy efficient improvements in your next VA guaranteed loan. This is Sid Ohlhausen for the Veterans Benefits Network. Thank you for your interest and attention.